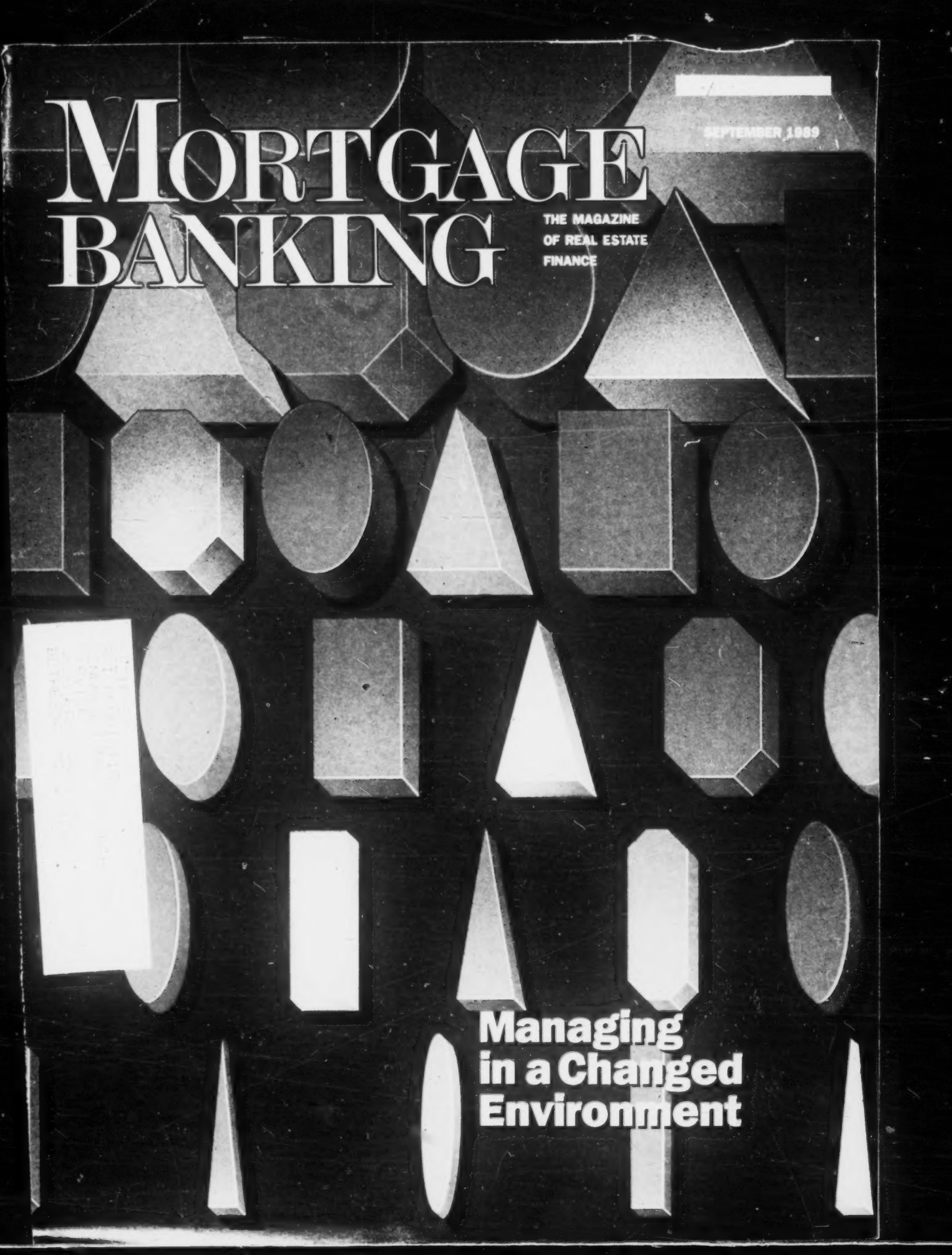
MORTGAGE BANKING
THE MAGAZINE OF REAL ESTATE FINANCE
SEPTEMBER 1989
Managing in a Changed Environment

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SEPTEMBER 1989 VOLUME 49 NUMBER 12

COVER: Internal Management

The mortgage banking industry has seen a thinning of its ranks in recent times. At the same time, the business has watched the very largest originators grow still larger. Internal management has played a key role in this chapter of the industry's history. Management has proven both a positive force in helping secure a thriving niche for some firms in these changing times, and it has played a role in the demise of yet others. One clear message emerges—inefficiency, henceforth, is likely to be a terminal flaw.

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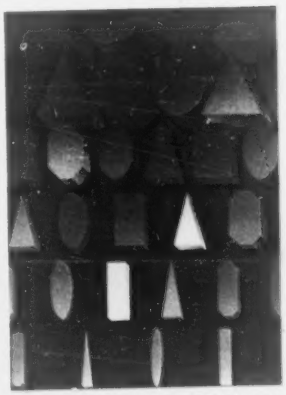
COVER ILLUSTRATION BY DAVE JONASON

Managing with an Edge



Is the change currently taking place inside the mortgage lending industry permanent and fundamental? Or are these changes the result of this industry's familiar nemesis—cyclicality? Most analysts concede the current restructuring is a result of permanent and powerful competitive forces that are here to stay and that will not look kindly on the old ways of doing business.

The easiest way to take account of the management formulas that now appear on the rise is to review the originations leader board. According to a ranking of the top 10 mortgage originators in this year's first half, the key to winning home loan volume appears to lie in being a large California thrift, a successful wholesaler or a mortgage operation backed by a deep-pocket corporate parent with marketing sophistication and a tie-in to real estate brokerages. Data compiled by *Inside Mortgage Finance*, a trade publication, indicates that the top three originators in this year's first half are the same lenders in the top three spots last year. But there's been a reshuffling. Great Western Financial has taken over the top spot, with Citicorp and its many originating affiliates ranking second, and in third place this year is last year's origination kingpin—Home Savings.

It probably matters little which of the top spots those three lenders hold at any given point in the year. The fact is they are doing something right if they can pull in that large a slice of the pie. What may be significant is who made the list this year that was not in sight last year. Only one lender emerged in this category—Prudential Home Mortgage—with an estimated $2 billion in originations in the first half. This lender's approach is innovative and anything but traditional. Its budding success is probably an indicator of what it will take to run with the successful companies in the years ahead. The consultants maintain that the key to the future will be finding a niche, crafting unique products that pull in volume independent of your sales team and taking advantage of the wholesale dynamic to quickly build your servicing portfolio without branch overhead. The cover story explores these and other trends at work.

Janet Reilley Hewitt
Editor

COMING IN OCTOBER

California—A Prototype?

Does California represent the marketplace of the future for lenders? If so, are there any lessons to be learned from that market about how to crack the affordability problem? Also, what does the future hold in terms of demographic change that could greatly affect housing demand and values?

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VITAL STATISTICS

INTEREST RATES & YIELDS
1- TO 4-FAMILY MORTGAGES

1989	FHA OPINION SURVEY	FHLBB			FNMA		FHLMC	
	FHA New Homes[1]	CONVENTIONAL[2] FRM	ARM	Median Cost of Funds FSLIC Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
APR	11.02%	10.93%	9.41%	7.84%	9.80%	10.94%	9.40%	11.05%
MAY	10.72	11.14	9.74	7.99	9.46	10.55	9.30	10.77
JUN	10.32	11.03	10.03	NA	8.83	10.04	9.03	10.20
JUL	NA	NA	NA	NA	**8.24**	**9.72**	**8.74**	**9.88**

SELECTED SECURITIES

1989	FEDERAL FUNDS RATE	PRIME COMMERCIAL PAPER (3-Month)	U.S. GOVERNMENT 6-Month	1-Year	3-Year	10-Year	A-Rated Utility
APR	9.84%	9.81%	8.65%	9.36%	9.40%	9.18%	10.33%
MAY	9.81	9.47	8.41	8.98	8.98	8.86	10.09
JUN	9.53	9.11	7.93	8.44	8.37	8.28	9.65
JUL	**9.24**	**8.68**	**7.61**	**7.89**	**7.83**	**8.02**	**9.54**

CURRENT SECONDARY MARKET YIELDS

1989	GNMA[3]	FNMA[3]	FHLMC[3]
APR	10.58%	10.55%	10.54%
MAY	10.29	10.31	10.30
JUN	9.77	9.80	9.78
JUL	**9.49**	**9.54**	**9.53**

SPREADS
(Basis Points)

	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
	140	137	136
	143	145	144
	149	152	150
	147	**152**	**151**

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

1989	FNMA Portfolio Commitments	FNMA Portfolio Purchases	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Commitments To Sell	FHLMC Commitments To Buy	FHLMC Mortgages Purchased	FHLMC PCs Issued	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
MAR	$1,771	$1,469	$188,071	$5,473	$7,134	$11,227	$6,373	$6,037	$5,620	$3,902
APR	1,118	1,163	191,420	4,407	5,945	4,196	5,861	5,554	3,513	3,983
MAY	1,626	1,419	193,681	3,762	5,233	5,186	5,142	4,474	4,452	4,115
JUN	**2,573**	**1,862**	**196,501**	**4,339**	**7,753**	**7,948**	**7,392**	**6,551**	**3,267**	**4,188**
1988 TOTAL	23,435	23,110	---	54,878	41,271	70,669	44,075	39,777	58,579	56,532
1987 TOTAL	25,415	20,531	---	63,230	68,210	76,615	76,840	75,018	116,611	96,983
6 MONTH AVG. 1989	1,955	1,309	---	4,447	5,986	7,029	5,574	5,154	3,947	4,119
1988	2,578	2,265	---	4,081	2,747	5,452	3,026	2,466	4,146	3,942
1987	1,891	1,547	---	6,069	7,887	9,122	8,490	8,377	12,637	9,793

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1989	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
MAR	1,409	1,031	378	1,230	942	288	160	308	552	389	182	254	446	351
APR	1,343	1,091	252	1,334	1,025	309	207	274	526	339	201	258	506	369
MAY	1,309	1,017	292	1,347	970	377	180	246	518	365	179	245	528	395
JUN	**1,400**	**1,028**	**372**	**1,300**	**939**	**361**	**171**	**238**	**548**	**443**	**182**	**231**	**508**	**379**
1988 TOTAL	1,488	1,140	348	1,456	1,070	386	235	271	575	404	230	266	544	416
1987 TOTAL	1,621	1,212	409	1,535	1,111	421	269	298	634	420	272	282	575	406
6 MONTH AVG. (SAAR)														
1989	1,434	1,087	347	1,350	1,029	329	206	275	560	393	196	260	512	382
1988	1,479	1,137	342	1,422	1,058	364	268	271	562	378	263	266	520	373
1987	1,692	1,267	425	1,617	1,179	438	290	337	628	437	291	317	591	418

HOME SALES

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1989	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
MAR	3,400	2,470	8.7	555	377	8.1
APR	3,400	2,640	9.3	609	377	7.6
MAY	3,210	2,580	9.6	635	381	7.4
JUN	**3,400**	**2,340**	**8.2**	**670**	**379**	**7.0**
1988 TOTAL	3,594	---	---	676	---	---
1987 TOTAL	3,526	---	---	671	---	---
6 MONTH AVG. (SAAR)						
1989	3,407	---	---	632	---	---
1988	3,472	---	---	662	---	---
1987	3,638	---	---	699	---	---

VALUE OF NEW PRIVATE CONSTRUCTION PUT IN PLACE

(Units in Billions of 1982 Dollars, Seasonally Adjusted Annual Rates)

	Total[5]	1-Unit	2+ Units	Nonresidential
MAR	$284.2	$101.6	$20.1	$82.5
APR	280.0	99.1	21.5	78.1
MAY	277.7	97.6	19.7	78.9
JUN	**277.6**	**96.1**	**19.5**	**80.9**
1988 TOTAL	281.8	103.5	19.3	77.9
1987 TOTAL	283.0	100.7	22.4	78.2
6 MONTH AVG. (SAAR)				
1989	281.4	100.8	20.0	80.5
1988	278.4	102.9	19.4	78.1
1987	281.1	99.3	23.5	76.1

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
	Total[a]	Mortgage Bankers	Savings & Loans[b]	Commercial Banks	Life Companies	Total[a]	Mortgage Bankers	Savings & Loans[b]	Commercial Banks	Life Companies	Total[a]	Mortgage Bankers	Savings & Loans[b]	Commercial Banks	Life Companies
1989															
JAN	$25,691	$5,286	$12,315	$7,689	$72	$2,930	$561	$1,430	$373	$329	$10,425	$121	$1,599	$7,495	$1,146
FEB	22,700	4,494	10,821	7,029	61	2,616	131	1,361	837	67	9,512	38	1,337	6,884	1,151
MAR	29,946	5,990	14,841	8,387	51	2,452	155	1,557	434	142	11,052	63	1,630	7,030	2,086
APR	**27,890**	**5,530**	**13,233**	**8,730**	**85**	**2,480**	**331**	**1,206**	**366**	**221**	**8,897**	**122**	**1,340**	**5,216**	**2,104**
1988 TOTAL	374,101	85,307	186,237	95,474	3,190	37,876	1,526	20,379	6,988	3,553	175,754	1,032	22,953	119,942	29,714
1987 TOTAL	449,544	110,993	208,054	124,551	3,209	44,981	2,409	22,492	8,299	3,547	168,652	2,871	25,613	110,490	28,160
4 MONTH AVG.															
1989	26,556	5,325	12,803	7,959	67	2,620	295	1,389	503	190	9,972	57	1,477	6,656	1,622
1988	24,376	6,131	11,670	6,148	101	2,434	243	1,379	418	240	13,837	47	1,720	10,258	1,534
1987	39,513	11,797	16,154	10,951	347	4,314	221	1,634	974	212	11,378	388	1,836	7,447	1,629

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	TOTAL	FHA[c]	VA	PRIVATE	TOTAL		FHA		VA		PRIVATE	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
1989												
MAR	147	86	16	45	95	$7,142	51	$3,189	18	$1,364	26	$2,589
APR	135	76	15	44	91	6,974	49	3,064	15	1,127	27	2,783
MAY	149	91	15	43	93	7,109	50	3,167	15	1,164	28	2,778
JUN	**157**	**96**	**15**	**46**	**107**	**8,155**	**60**	**3,774**	**14**	**1,072**	**33**	**3,309**
1988 TOTAL	1,755	949	211	595	1,334	98,012	699	42,577	211	15,771	424	39,664
1987 TOTAL	2,340	1,211	408	721	2,282	159,668	1,320	81,881	451	33,312	511	44,475
6 MONTH AVG.												
1989	135	80	15	40	100	7,475	57	3,555	16	1,198	27	2,722
1988	154	87	16	51	106	7,634	55	3,298	17	1,240	34	3,096
1987	245	138	42	65	211	14,675	125	7,760	44	3,242	42	3,673

NA—Not Available; SAAR—Seasonally Adjusted Annual Rate

[1]Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.

[2]Effective rate on loans closed.

[3]Securities for 0 to 30 day delivery.

[4]In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.

[5]In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, Federal credit agencies, mortgage pools, and state and local investment agencies.

[6]Savings & Loans and Mutual Savings Banks.

[7]FHA applications received includes the Direct Endorsement Program.